Considerations and Options:

1. **Guidelines or Standards for Unassigned Fund Balance:**
   a. **1-3 months of operating expenditures-$500,000 to $1,500,000**
   b. **Major bond rating agencies (Moody's, Standards & Poor's, Fitch)-5% to 10% of budget-$300,000 to $600,000**
   c. **Section 688 of school code-(not applicable to vocational schools)-8% to 12% of budget-$480,000 to $750,000**

2. **The Board can assign part of the Unassigned Fund Balance:**
   a. **Add to the assigned fund balance for PSERS rate increases**
   b. **Assign to fund new program expenses-(furniture, fixtures, and equipment)**

3. **Transfer to the Capital Reserve Fund:**
   a. **Building repairs and improvements**
   b. **Emergency needs**
   c. **Start saving towards a building project**

Balances as of July 1, 2013

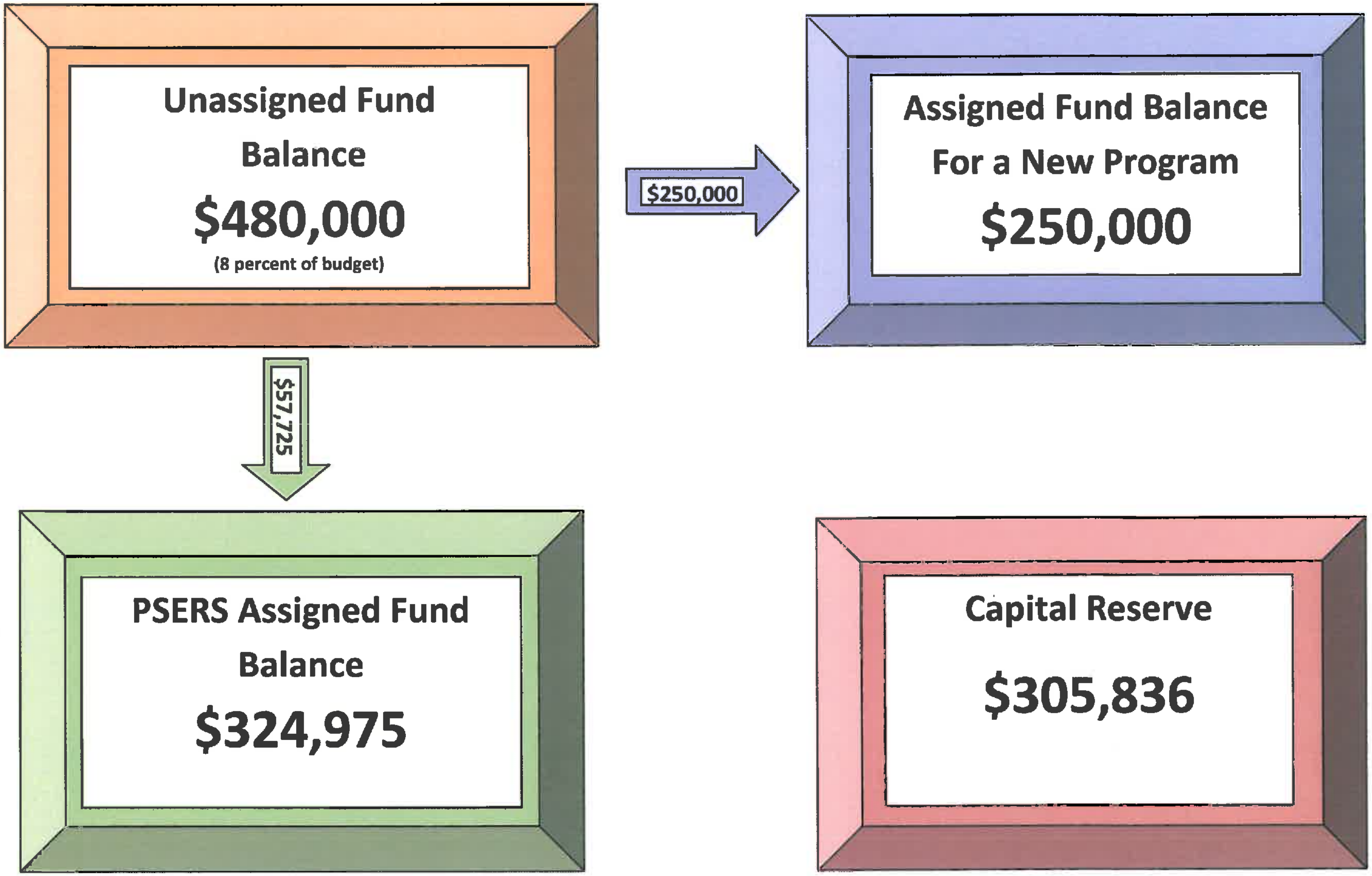
Unassigned Fund Balance
$787,725

Budgetary Reserve
$74,310

PSERS Assigned Fund Balance
$267,250

Capital Reserve
$305,836

"Example" Fund Balance Transfer



1. Assigns fund balance of $250,000 for the one-time expenses associated with the establishment of a new program. Reduces the expense on the Districts by approximately 7 percent.
2. Continues to fund future PSERS rate increase by adding $57,725
3. Reduces the unassigned fund balance to 8% percent of the budget, covering approximately 1 month of expenditures
4. The capital reserve fund remains the same

PSERS Projections and
PSERS Assigned Fund Balance

School Year	PSERS Contribution Rate Estimate*	Estimated Payroll**	Employer Contribution Costs	PSERS Cost Increase Over Previous Year	8 Percent Baseline	Difference between Baseline (8%) and Employer Contribution
2008-2009	4.76%	$2,752,335	$131,011	N/A	$220,187	-$89,176
2009-2010	4.78%	$2,899,564	$138,599	$7,588	$231,965	-$93,366
2010-2011	5.64%	$2,905,379	$163,863	$25,264	$232,430	-$68,567
2011-2012	8.65%	$2,918,545	$252,454	$88,591	$233,484	$18,971
2012-2013	12.36%	$2,877,163	$355,617	$103,163	$230,173	$125,444
2013-2014	16.93%	$2,839,044	$480,650	$125,033	$227,124	$253,527
2014-2015	21.31%	$2,924,215	$623,150	$142,500	$233,937	$389,213
2015-2016	25.80%	$3,011,942	$777,081	$153,931	$240,955	$536,126
2016-2017	28.30%	$3,102,300	$877,951	$100,870	$248,184	$629,767
2017-2018	29.15%	$3,195,369	$931,450	$53,499	$255,630	$675,821

* based on PSERS Projection of Contribution Rates and Funded Ratios as of June 30, 2012

**estimated payroll assumes a 3% increase in future years

PSERS Assigned Fund Balance

Assigned Fund Balance-future PSERS rate increase 09-10	$43,750
Assigned Fund Balance-future PSERS rate increase 10-11	$42,500
Assigned Fund Balance-future PSERS rate increase 11-12	$42,000
Assigned Fund Balance-future PSERS rate increase 12-13	$42,000
Planned Use of Fund Balance 13-14	($42,000)
Assigned Fund Balance-future PSERS rate increase 13-14	$97,000
Total Assigned Fund Balance as of June 30, 2014	$225,250

If ECTS were to fund the difference between the 8% baseline and the estimated employer contributions beginning in the 2013-2014 school year and continuing through 2017-2018 school year, the PSERS Assigned Fund Balance would need to be $2,484,453. The PSERS Assigned Fund balance for June 30, 2014 is estimated at $225,250. This leaves a shortfall of $2,259,203.

Based on the Actuary Study, PSERS rates are not estimated to return to below 8% until 2042. They are estimated to range between 16.93% and 31.43% through 2036.

Public School Employees' Retirement System of Pennsylvania
Projection of Contribution Rates and Funded Ratios As of June 30, 2012

Fiscal Year Ending June	Appropriation Payroll (thousands)	Fiscal Market Rate of Return	Pension Rate Floor	Employee Contribution Rate	Employer Normal Cost	Employer Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Care Contribution	Total Employer Contribution Rate	Projected Total Employer Contribution (thousands)	Funded Ratio	Unfunded Accrued Liability ($ Millions)
2011	$ 13,510,000	20.37 %	4.00 %	7.34 %	8.08 %	(0.50) %	7.58 %	0.64 %	5.64 %		69.1 %	$ 26,499.3
2012	14,112,000	3.43	4.00	7.37	8.12	10.15	18.27	0.65	8.65		66.4	29,533.0
2013	14,297,000	7.50	4.00	7.40	8.66	12.99	21.65	0.86	12.36	$ 1,767,109	63.7	32,962.8
2014	13,720,000	7.50	4.00	7.43	8.57	15.26	23.82	0.93	16.93	2,322,796	61.5	35,966.2
2015	14,081,432	7.50	4.00	7.44	8.27	16.95	25.22	0.81	21.31	3,000,753	59.7	38,780.8
2016	14,451,877	7.50	4.00	7.45	8.01	18.40	26.41	0.80	25.80	3,728,584	58.5	41,099.7
2017	14,856,092	7.50	7.77	7.46	7.77	19.74	27.51	0.79	28.30	4,204,274	57.2	43,620.1
2018	15,277,378	7.50	7.54	7.47	7.54	20.84	28.38	0.77	29.15	4,453,356	56.6	45,610.2
2019	15,727,920	7.50	7.34	7.47	7.34	22.04	29.38	0.76	30.14	4,740,395	57.8	45,599.5
2020	16,199,868	7.50	7.14	7.48	7.14	22.99	30.13	0.74	30.87	5,000,899	59.1	45,486.0
2021	16,688,649	7.50	6.95	7.48	6.95	23.11	30.06	0.72	30.78	5,136,766	60.0	45,701.6
2022	17,199,637	7.50	6.76	7.49	6.76	23.29	30.05	0.71	30.76	5,290,608	61.4	45,466.6
2023	17,725,437	7.50	6.58	7.49	6.58	23.66	30.24	0.69	30.93	5,482,478	62.9	44,957.7
2024	18,263,477	7.50	6.40	7.49	6.40	23.90	30.30	0.67	30.97	5,656,199	64.5	44,175.3
2025	18,811,813	7.50	6.23	7.49	6.23	24.12	30.35	0.67	31.02	5,835,424	66.3	43,137.0
2026	19,364,839	7.50	6.05	7.49	6.05	24.33	30.38	0.67	31.05	6,012,783	68.3	41,799.3
2027	19,923,567	7.50	5.88	7.49	5.88	24.55	30.43	0.67	31.10	6,196,229	70.4	40,144.8
2028	20,486,182	7.50	5.71	7.49	5.71	24.76	30.47	0.67	31.14	6,379,397	72.6	38,161.1
2029	21,055,828	7.50	5.52	7.50	5.52	24.96	30.48	0.67	31.15	6,558,890	74.9	35,831.9
2030	21,629,768	7.50	5.34	7.50	5.34	25.18	30.52	0.67	31.19	6,746,325	77.4	33,125.5
2031	22,213,012	7.50	5.16	7.50	5.16	25.40	30.56	0.67	31.23	6,937,124	80.1	30,008.2
2032	22,801,505	7.50	4.98	7.50	4.98	25.62	30.60	0.67	31.27	7,130,031	82.9	26,447.0
2033	23,402,793	7.50	4.80	7.50	4.80	25.85	30.65	0.67	31.32	7,329,755	85.9	22,404.4
2034	24,017,194	7.50	4.63	7.50	4.63	26.08	30.71	0.67	31.38	7,536,595	89.0	17,839.3
2035	24,647,532	7.50	4.45	7.50	4.45	26.31	30.76	0.67	31.43	7,746,719	92.4	12,706.7
2036	25,296,263	7.50	4.27	7.50	4.27	13.58	17.85	0.67	18.52	4,684,868	94.0	10,235.5
2037	25,959,708	7.50	4.10	7.50	4.10	10.44	14.54	0.67	15.21	3,948,472	95.3	8,302.8
2038	26,646,552	7.50	3.93	7.50	3.93	9.06	12.99	0.67	13.66	3,639,919	96.4	6,517.5
2039	27,357,744	7.50	3.76	7.50	3.76	7.29	11.05	0.67	11.72	3,206,328	97.3	5,016.4
2040	28,098,858	7.50	3.60	7.50	3.60	5.82	9.42	0.67	10.09	2,835,175	98.0	3,762.3
2041	28,877,923	7.50	3.44	7.50	3.44	4.43	7.87	0.67	8.54	2,466,175	98.6	2,767.2
2042	29,697,814	7.50	3.30	7.50	3.30	3.32	6.62	0.67	7.29	2,164,971	99.0	1,991.7
2043	30,568,782	7.50	3.17	7.50	3.17	2.06	5.23	0.67	5.90	1,803,558	99.2	1,512.4
2044	31,494,407	7.50	3.06	7.50	3.06	1.08	4.14	0.67	4.81	1,514,881	99.4	1,287.0
2045	32,448,060	7.50	2.95	7.50	2.95	1.07	4.02	0.67	4.69	1,521,814	99.5	1,038.2
2046	33,430,590	7.50	2.84	7.50	2.84	0.98	3.82	0.67	4.49	1,501,033	99.6	789.5

Fund Balance FAQs

Identifying the issues, influencing legislation and shaping the debate on key education issues

Frequently Asked Questions: School District Fund Balances

Revised October 2012

Fund balance usually is discussed only during budget preparation and negotiations. Unfortunately, because both situations are filled with pressures they are not the best times to understand the concept. Following is a compilation of questions that have been received by the PSBA research staff.

Q. What is a "Fund Balance?"

A. Although the term is used to describe a number of things, a fund balance is the difference between assets and liabilities. When assets are greater than liabilities, the balance is positive. Fund balance includes items such as money due but not received - including, for example, delayed subsidy payments from the State.

Q. When revenues exceed expenditures, is this a Fund Balance?

A. No. When revenues exceed expenditures the result is termed an operating surplus, which becomes one part of the fund balance.

Q. Is Fund Balance equal to cash and investments?

A. No. Cash and investments are part of a fund balance. Other parts of a fund balance include amounts owed to the district, cash value of inventory and, other assets.

Q. Why is a Fund Balance needed?

A. Just as an individual or family should maintain a savings account for unforeseen expenses or emergencies, school districts should also have funds in reserve to pay for emergency repairs or unexpected interruptions in revenues - such as a layoff at a major factory which suddenly affects tax collections. Fund balance can also be used to offset year-to-year variations in local or state cash flow, such as a delay in subsidy payment from the State. In addition, fund balances enable districts to generate investment income which, in turn, helps to keep tax rates lower.

A November 1990 research bulletin by the Government Finance Officers Association recommended that an unreserved fund balance be retained to guard against an economic downturn. It also advised that a fund balance is necessary to meet emergency situations, which could include: uninsured loss, major repairs to heating systems, and replacement of damaged educational equipment prior to scheduled change.

Q. What is the benefit of maintaining a Fund Balance?

A. In addition to the ability to generate interest income, a fund balance benefit occurs when a bond issue is required. Credit ratings of school districts and other public entities can be affected directly by the level of their fund balances; those with little or no money in reserve are considered to be higher risks and their ratings - along with their cost of borrowing, suffer accordingly.

Q. What is an appropriate Fund Balance?

A. There is no simple answer to this question. The circumstances of a school district have a lot to do with the preferred size of its fund balance. For example, where the local economy and tax base are weak, when the district budget relies heavily on state and federal sources of funding which can change or be delayed without notice, or when the district is carrying a sizeable debt burden, a higher fund balance may be appropriate. There are, of course, many other legitimate reasons to hold funds in reserve. School officials may build a fund balance over time, with the intention of using the money for a renovation project or another one-time expense. In those instances, districts, in essence, pay themselves over time rather than borrowing and repaying a bank with interest.

Q. Are there formal guidelines or standards for a Fund Balance?

A. Guidelines that exist offer three different methods. One relies on a formula where a predetermined number of months (usually one to three months) of operating expenditures are used. The other is used by the three major bond rating agencies - Moody's, Standard & Poor's, and Fitch. The rating agencies recommend between 5% and 10% of current period operating expenditures (budget). Section 688 of the school code says that when the fund balance exceeds between 8 and 12% of expenditures, depending on the size of the budget, the district must consume any fund balance in excess of 8% prior to increasing taxes.

Q. If necessary, is all of a fund balance available for use?
A. A fund balance is divided into four parts called restricted, committed, assigned and unassigned fund balance. A restricted, committed or assigned fund balance is earmarked for a special purpose, such as pre-payments, and inventory or board established reserve for things like pension rate increases. An unassigned fund balance is available for use. The rating agency or formula calculation should be applied only to unrestricted fund balance. In the case of the School Code provision (Section 688) the limitation applies only to the unrestricted – undesignated fund balance in the general fund. The separation of the fund balance into 4 parts was established by the Governmental Accounting Standards Board (GASB) as part of Statement 54 issued in February 2009.

Q. Should there be a formal policy concerning fund balance?
A. Yes. The board should adopt the standard that best suits the district.

Q. Is there only one fund balance.
A. There is a separate fund balance for each separate fund that a district would have. E.g.: There is a fund balance for the general fund, debt service fund, capital reserve fund.

Q. If a fund balance exceeds the established guidelines or board policy, how should the funds be used?
A. If the unreserved fund balance exceeds the standards set for the district, the excess funds could be used. Use should be limited to one-time expenditures such as capital equipment, vehicle replacement or any other nonrecurring expenses. An alternative use of excess fund balance is to transfer the balance to capital reserve for future building repairs. Additionally, the excess funds could be designated for some specific future use as determined by the board. Because the use of a fund balance is equal to one-time revenue, the expenditure should be a one-time expenditure.

Q. When negotiating union contracts, is it damaging to maintain a fund balance?
A. No. While it may appear to be a problem, a fact finding report (November 1991) stated, ***"A school board should not be penalized for efficiency in operation and the development of a strong financial position by being required to grant wage increases in excess of other districts that are not as fortunate. Taxpayer money does not have to be spent just because it is available."***
A final observation: In a 1991 survey, PSBA also asked school districts what percentage of their annual budgets the postponed June 3, 1991, basic subsidy payments represented. Of the nearly 200 districts responding, the average was 4.6%. Said another way, most school districts would not have been able to cover expenses normally paid by the delayed June subsidy payments if fund balances of less than 5% had been in effect.

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Section 688. Limitations on Certain Unreserved Fund Balances.--(a) For the 2005-2006 school year and each school year thereafter, no school district shall approve an increase in real property taxes unless it has adopted a budget that includes an estimated ending unreserved, undesignated fund balance less than the percentages set forth as follows:

School District Total Budgeted Expenditures	Estimated Ending Unreserved, Undesignated Fund Balance as Percentage of Total Budgeted Expenditures
Less Than or Equal to $11,999,999	12%
Between $12,000,000 and $12,999,999	11.5%
Between $13,000,000 and $13,999,999	11%
Between $14,000,000 and $14,999,999	10.5%
Between $15,000,000 and $15,999,999	10%
Between $16,000,000 and $16,999,999	9.5%
Between $17,000,000 and $17,999,999	9%
Between $18,000,000 and $18,999,999	8.5%
Greater Than or Equal to $19,000,000	8%

(b) By August 15, 2005, and August 15 of each year thereafter, each school district that approves an increase in real property taxes shall provide the Department of Education with information certifying compliance with this section. Such information shall be provided in a form and manner prescribed by the Department of Education and shall include information on the school district's estimated ending unreserved, undesignated fund balance expressed as a dollar amount and as a percentage of the school district's total budgeted expenditures for that school year.

(c) As used in this section, "estimated ending unreserved, undesignated fund balance" shall mean that portion of the fund balance which is appropriable for expenditure or not legally or otherwise segregated for a specific or tentative future use, projected for the close of the school year for which a school district's budget was adopted and held in the General Fund accounts of the school district.

(688 added Dec. 23, 2003, P.L.304, No.48)